

Message Text

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C O N F I D E N T I A L CARACAS 9456

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SUBJ: PRESENT AND FUTURE PETROLEUM RELATIONSHIPS BETWEEN
VENEZUELA AND THE UNITED STATES

REF: A. CARACAS 9446; B. STATE 218866

1. THE FRONT PAGE ARTICLE IN THIS MORNING'S NACIONAL, AS REPORTED REF A, IS UNDOUBTEDLY A CAREFULLY CONCERTED ESTIMATE BY THE VENEZUELAN GOVERNMENT OF U.S. RELIANCE ON VENEZUELAN PETROLEUM IN THE SHORT TERM AND ITS HOPES FOR LONG TERM EXPLOITATION WITH VENEZUELA OF THE ORINOCO BELT. THIS ARTICLE IS A REFLECTION OF THE IMPRESSIONS GAINED BY THE VENEZUELAN GOVERNMENT FOLLOWING MY CALL NOV 2 ON FONMIN CALVANI AND MINISTER OF FINANCE OBERTO'S CONTACTS IN WASHINGTON, SUPPLEMENTED BY VIEWS SUCH AS THOSE EXPRESSED TO DEVINE BY VENEZUELAN CHARGE D'AFFAIRES UGUETO AS REPORTED IN DEVINE'S MEMCON OF OCTOBER 16.

2. IRRESPECTIVE OF WHICH PARTY GAINS OFFICE DECEMBER 9, THE STAGE IS NOW BEING SET FOR FUTURE EXCHANGES OF VIEWS
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BETWEEN VENEZUELA AND THE UNITED STATES ON PETROLEUM.

UNDOUBTEDLY, AS INDICATED BY UGUETO, THE VENEZUELANS FEEL WE GREATLY EXAGGERATE THE DRAWING POWER OF AN OFFER BY THE U.S. TO TAKE ALL OF VENEZUELAN PETROLEUM PRODUCED FROM THE ORINOCO DEPOSIT BECAUSE THE VENEZUELANS REASON ON THE BASIS OF PAINFUL CURRENT EVIDENCE THAT THE UNITED STATES NEEDS THIS OIL MORE THAN THEY NEED TO DEVELOP IT. AS AN ANTIDOTE TO THIS VIEW, WE SHALL ENDEAVOR TO POINT OUT THAT AT PRESENT HIGH PRICES FOR PETROLEUM, U.S. MUST OF NECESSITY TURN TO ALTERNATIVE SOURCES; E.G., COAL AND SHALE. ANYTHING DEPARTMENT CAN SEND US ALONG LINES OF CONTEMPLATED DEVELOPMENT OF THESE ALTERNATE SOURCES WOULD BE HELPFUL. OF EVEN GREATER IMPACT WOULD BE AUTHORITATIVE ARTICLES IN OIL JOURNALS OR IN SUCH PAPERS AS THE WALL STREET JOURNAL AND THE NEW YORK TIMES SHOWING HOW GASIFICATION OR LIQUEFICATION OF COAL, FOR EXAMPLE, CAN PRODUCE ACCEPTABLE SUBSTITUTES AT PRICES EQUIVALENT TO OR LOWER THAN VENEZUELAN PETROLEUM AND PRODUCTS.

3. BOTH PARTIES WILL PROBABLY SUPPORT A DEMAND BY VENEZUELA THAT IF MVMIT MAKES AVAILABLE ITS RESOURCES FROM THE ORINOCO BELT TO THE UNITED STATES, THERE SHOULD BE AN ADDITIONAL QUID PRO QUO IN TERMS OF GUARANTEES BY THE UNITED STATES TO ACCEPT OTHER VENEZUELAN EXPORTS AS FOR EXAMPLE STEEL, MANUFACTURED PRODUCTS AND PROCESSED ALUMINUM. (WE SHOULD LIKEWISE KEEP IN MIND THAT THE MINISTER OF MINES AND HYDROCARBONS PEREZ LA SALVIA IS CHAIRMAN OF OPEC SUBCOMMITTEE WHICH HAS PRECISELY TASK OF SOMEHOW COMPELLING OIL-CONSUMING STATES TO RECEIVE OTHER EXPORTS FROM OIL-PRODUCING STATES.) THE VENEZUELANS WILL PROBABLY WISH TO DEAL WITH A STATE CONTROLLED ENTITY IN PRESSING SUCH PREFERENCES AND WILL PROBABLY BE MYSTIFIED AS TO WHY THEY CAN MAKE A LONG TERM ARRANGEMENT FOR CANADIAN WHEAT (CARACAS 9431) BUT CANNOT MAKE A SIMILAR ARRANGEMENT ON A GOVERNMENT TO GOVERNMENT BASIS WITH THE UNITED STATES. FURTHERMORE, THEY WILL CERTAINLY PRESS THAT CVP BE THEIR CHOSEN INSTRUMENT AND UNDOUBTEDLY (CARACAS 9006) WILL WANT TO PURSUE THE AVENUE OF DOWNSTREAM OPERATIONS BY CVP IN THE UNITED STATES IN RETURN FOR MEETING OUR REQUIREMENTS RE AMORTIZATION OF THE HUGE CAPITAL NECESSARY FOR DEVELOPMENT OF THE ORINOCO

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BELT.

4. IN OTHER WORDS, THE EQUATION WILL BECOME MORE COMPLICATED AND A REACHING OF AN EQUITABLE BALANCE BETWEEN THE TWO GOVERNMENTS MORE DIFFICULT. NEVERTHELESS, THESE PROBLEMS SHOULD NOT BE INSUPERABLE OR INSOLUBLE. I WISH TO FLAG THEM NOW, HOWEVER, IN ORDER THAT SOME THINKING CAN BE DONE IN WASHINGTON BY THE VARIOUS AGENCIES INVOLVED

SO THAT WHEN EITHER WE OR THE VENEZUELANS COME TO INITIATE CONVERSATIONS, A LINE OF POLICY WILL BE PREPARED. WE SHOULD NOT EXCLUDE POSSIBILITY THAT, AFTER THE VENEZUELAN ELECTIONS, PRESIDENT-ELECT MAY DESIRE TO SEND REPRESENTATIVES FOR TALKS IN WASHINGTON BECUASE FROM VENEZUELAN POINT OF VIEW, DUE TO PRESENT OIL CRISIS IT WILL BE ASSUMED WE ARE IN A LESS ADVANTAGEOUS NEGOTIATING POSITION. ON OTHER HAND, WE OURSELVES MAY WANT TO INITIATE CONVERSATIONS EARLY ON WITH THE NEW PRESIDENT AND, AFTER MARCH 20, HIS GOVERNMENT.

5. IN THIS CONNECTION IT SHOULD BE KEPT IN MIND THAT THE OIL COMPANIES THEMSELVES ARE NOT IDLE AND THAT SOME OF THEIR BEST BRAINS HAVE BEEN ASSIGNED TO WORKING UP POSITIONS WHICH THE OIL COMPANIES SHOULD TAKE VIS-A-VIS VENEZUELA IN THE DECADE BETWEEN NOW AND THE EXPIRY OF THE CONCESSIONS IN 1983. IT IS CLEAR THAT THE OIL COMPANIES ARE RECONCILED TO THE IMPERATIVE OF SEEKING ARRANGEMENTS WHICH WILL CONTEMPLATE JOINT VENTURES WITH CVP. THEY ALSO WILL DO THEIR UTMOST (I HOPE WITH USG SUPPORT) TO AMELIORATE THE PRESENTLY OPPRESSIVE RIGORS OF THE REVERSION LAW. IN CONSEQUENCE, IN POLICIES EVOLVED ON THE REVOLVING STAGE IN WASHINGTON, IT WILL BE NECESSARY TO ADD TO OUR CAST OF CHARACTERS THE OIL COMPANIES.
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